

# **Legislative Audit Division**

**State of Montana**



**Report to the Legislature**

**December 2003**

## **Financial Audit For the Fiscal Year Ended June 30, 2003**

### **The University of Montana**

**A Component Unit of the State of Montana**

We performed a financial audit of The University of Montana's consolidated financial statements for the fiscal year ended June 30, 2003. These financial statements present the financial position, the results of operations, and cash flows, on a consolidated basis, of all four campuses affiliated with The University of Montana: The University of Montana-Missoula; Montana Tech of The University of Montana; The University of Montana-Western; and The University of Montana-Helena College of Technology. The statements include comparative information for the fiscal year ended June 30, 2002. This report contains an unqualified opinion on those financial statements and accompanying notes for the fiscal year ended June 30, 2003, and the comparative information for the fiscal year ended June 30, 2002. This opinion means the reader may rely on the financial statement information presented.

This audit is performed to attest to the fairness of the consolidated financial statements of The University of Montana. Audit issues, if any, identified during this audit have been discussed with university management.

**Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705**

**03-10**

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## FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

### MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

December 2003

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial audit report on The University of Montana's consolidated financial statements for the fiscal year ended June 30, 2003. The statements include comparative information for the fiscal year ended June 30, 2002. The University requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if The University's financial statements present fairly its financial position, changes in its financial position, and its cash flows for the fiscal year ended June 30, 2003. This objective included determining The University's compliance with laws and regulations having a direct and material impact on the financial statements. Our opinion for fiscal year 2002 is based on the audit we performed in the fall of 2002.

As a result of a reorganization of the Montana University System in January 1994, The University of Montana consists of campuses located in Missoula, Butte, Dillon, and Helena. The campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges and provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

The University of Montana-Missoula, established in 1893, is a comprehensive university offering four-year undergraduate programs along with master and doctoral graduate programs. It includes professional schools and significant research activities. The campus is the center of liberal arts education in the Montana University System and operates the only law school in the system. Other schools include business administration, education, fine arts, forestry, pharmacy and allied health services, and journalism. In addition, the campus includes a two-year college of technology that provides a broad range of technical and occupational education and training courses.

Montana Tech of The University of Montana was established in 1893 as the Montana School of Mines. It provides a variety of four-year and graduate programs with a focus on mineral, geological, environmental, petroleum, mining, and other engineering and science programs and majors. It also includes a college of technology that provides two-year degrees in various occupational and technical programs and core education courses.

The University of Montana-Western was established in 1893 as the state's Normal School for Teacher Education. It provides both two-year and four-year undergraduate degree programs with a focus on elementary and secondary education. It also provides a four-year liberal arts degree with several emphases that complement the education programs.

The University of Montana-Helena College of Technology was established in 1939 as a Vocational-Technical School. This college provides two-year Associate of Science degree programs

and a variety of other occupational, technical, and training specialties. These areas include accounting technology, carpentry, computer technology, practical nursing, electronics technology, and welding technology. The college is expanding its offerings and will serve as a higher education center by offering certain courses transferable to degree programs offered at other campuses of the Montana University System.

A list of Appointed and Administrative Officials having oversight responsibilities with respect to The University of Montana can be found on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by The University's financial statements and accompanying notes. We issued an unqualified opinion on The University's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to The University. Audit issues, if any, identified during this audit have been discussed with university management. The University's response to this report is on page B-1.

We thank President Dennison and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

*Signature on File*

Scott A. Seacat  
Legislative Auditor

## Appointed and Administrative Officials

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### Board of Regents of Higher Education

Edwin H. Jasmin, Chair  
 Christian Hur, Student Regent, Vice Chair  
 John Mercer, Regent  
 Lynn Morrison-Hamilton, Regent  
 Richard Roehm, Regent  
 Mark Semmens, Regent  
 Lila Taylor, Regent

Judy Martz, Governor\*  
 Linda McCullough, Superintendent of Public Instruction\*

### Commissioner of Higher Education

|                   |   |
|-------------------|---|
| Sheila M. Stearns | Commissioner of Higher Education                            |
| Rodger Barber     | Acting Deputy Commissioner for Academic and Student Affairs |
| Rod Sundsted      | Associate Commissioner for Fiscal Affairs                   |
| Laurie O. Neils   | Director of Budget and Accounting                           |

### The University of Montana, All Campuses

|                    |           |
|--------------------|-----------|
| George M. Dennison | President |
|--------------------|-----------|

### The University of Montana-Missoula

|                  |   |
|------------------|---|
| Lois Muir        | University Provost and Vice President for Academic Affairs                  |
| Robert Duringer  | Vice President for Administration and Finance and University Vice President |
| Daniel J. Dwyer  | Vice President for Research and Development and University Vice President   |
| Teresa S. Branch | Vice President for Student Affairs and University Vice President            |
| David Aronofsky  | Legal Counsel   |
| James R. Darcy   | Director of Business Services   |
| A. William Muse  | Executive Director of Planning, Budget and Analysis                         |

\*Ex officio members of the Board of Regents

## **Appointed and Administrative Officials**

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### **Montana Tech of The University of Montana**

|                     |  |
|---------------------|--|
| W. Franklin Gilmore | Chancellor and University Executive Vice President   |
| Susan B. Patton     | Vice Chancellor for Academic Affairs and Research<br>and University Associate Provost        |
| Joseph F. Figueira  | Vice Chancellor for Research and Graduate Studies<br>and University Associate Vice President |
| John C. Badovinac   | Controller/Business Manager  |
| Lynn Job            | Director of Contracts and Grants   |

### **The University of Montana-Western**

|                   |   |
|-------------------|---|
| Karl E. Ulrich    | Interim Chancellor and University Executive<br>Vice President   |
| Thomas R. Yahraes | Vice Chancellor for Institutional Advancement and<br>University Associate Vice President for<br>Student Affairs |
| Susan D. Briggs   | Vice Chancellor for Administration and<br>Finance and University Associate Vice President                       |
| Virginia Dale     | Director of Business Services   |

### **The University of Montana-Helena College of Technology**

|                    |  |
|--------------------|--|
| Steven G. Hoyle    | Dean/CEO                                       |
| Richard L. Gray    | Associate Dean for Academic Affairs            |
| Cristobal Valdez   | Assistant Dean for Student Affairs             |
| Donnie J. Whitaker | Assistant Dean for Fiscal and Plant Operations |

Members of the audit staff involved in this audit were Laurie Barrett, John Fine, and Brenda Kedish.

## LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial Compliance Audit

### INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Consolidated Statement of Net Assets of The University of Montana, a component unit of the state of Montana, as of June 30, 2003 and 2002, and the related Consolidated Statement of Revenues, Expenses and Changes in Net Assets and Consolidated Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of The University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Montana as of June 30, 2003 and 2002, and the results of its operations, and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The supplemental information on enrollment, employees, and degrees granted on page A-34 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Respectfully submitted,

*Signature on File*

James Gillett, CPA  
Deputy Legislative Auditor

November 19, 2003



**The University of Montana's  
Management's Discussion and Analysis,  
Financial Statements, Notes and  
Supplemental Information**

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# **The University of Montana**

**The University of Montana-Missoula**

**The University of Montana- Western**

**The University of Montana- Helena College of Technology**

**Montana Tech of the University of Montana**

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## **Management's Discussion and Analysis**

### **Fiscal Year Ended June 30, 2003**

#### **Overview**

The University of Montana is comprised of four campuses: The University of Montana-Missoula; The University of Montana- Western; The University of Montana- Helena College of Technology; and Montana Tech of The University of Montana. These are the consolidated financial statements for the four campuses, and included are three basic statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The discussion and analysis which follows provides a comparative overview of the University's financial position and operating results for the fiscal years ended 6/30/03 and 6/30/02, and should be read in conjunction with the fiscal year 2003 financial statements.

#### **Financial Highlights of Fiscal Year 2003**

- Tuition increased 13% for both resident and non-resident undergraduate and graduate program students and 5% for College of Technology students on the four campuses from fiscal year 2002 to fiscal year 2003. In addition, a tuition surcharge designed to partially offset a \$4.9 million state appropriation rescission was instituted in FY 2003. The tuition increase and surcharge coupled with a modest increase in the number of students generated approximately \$8.9 million in increased tuition revenue (net of scholarship allowances) over fiscal year 2002.
- The University issued \$18,900,000 of Series "G" Revenue Bonds on October 18, 2002. The proceeds of the issuance will be used primarily to construct a 198 unit housing complex in Missoula just south of Dornblaser Field. In addition, a small portion of the proceeds provided funding to enhance the campus information technology infrastructure. The complex is currently under construction, and is expected to be ready for occupancy in August of 2004.
- Because of the unusually large spread between long term and short term interest rates, the University invested approximately \$10,000,000 in the State of Montana Trust Fund Bond Pool (TFBP) on August 1 of 2002. Previously, those funds were invested exclusively in the State of Montana Short Term Investment Pool (STIP), which is a money market fund. The TFBP investment generated approximately \$496,000 of interest income in excess of what would have been earned in STIP during the period from August 1, 2002 through June 30, 2003. During that period of time, the average yield spread between the TFBP and STIP exceeded 5%.

- Federal contract and grant revenue increased by approximately \$9.0 million (from \$47.6 million to \$56.6 million) in fiscal year 2003 compared to fiscal year 2002. The Pharmacy School on the Missoula campus was the single largest source of that increased revenue.
- Unrestricted Net Assets increased substantially during the year, increasing from about \$14.0 million to more than \$18.4 million. Most of that increase is attributable to a number of the University's Designated Fund self-supporting activities.

## Using the Financial Statements

The University's financial statements consist of the following three statements:

- Statement of Nets Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

A discussion of each of the individual statements follows. Some key points to be aware of regarding the statements are:

- These are consolidated statements representing the University's four campuses.
- They are prepared using the accrual basis of accounting, which means revenues are reported when earned, and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Assets and liabilities presented in the statements are generally measured at current value, although capital assets are stated at historical cost less an allowance for accumulated depreciation.
- Capital assets are classified as depreciable and non-depreciable (see Notes 2 and 7). Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and Liabilities are treated as current (Due within one year) or as noncurrent (Due in more than one year), and in the Statement of Net Assets are presented in order of their relative liquidity.
- Revenues and Expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment, while "non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. We show a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that General Operating Fund expenses be reported as "operating", while the State Appropriation revenues must be reported as "non-operating".
- Tuition and Fees are reported net of any Scholarships or Fellowships that were applied directly to a student's account. The reason for this "netting" is to keep the University financial statements from "double counting" this revenue.

## Statement of Net Assets

The Statement of Net Assets reflects the financial position of the University at the end of the fiscal year. The changes in net assets that occur over time indicate improvements or deterioration in the University's financial position.

A summary of the Statement of Net Assets follows:

| <u>DESCRIPTION OF ITEM</u>                      | <u>For Fiscal Year<br/>Ended 6/30/03</u> | <u>For Fiscal Year<br/>Ended 6/30/02</u> |
|---|--|--|
| Total Current Assets                            | \$68,667,583                             | \$61,895,306                             |
| Total Noncurrent Assets                         | 259,022,930                              | 246,002,863                              |
| <b>TOTAL ASSETS</b>                             | <b>\$327,690,513</b>                     | <b>\$307,898,169</b>                     |
|   |  |  |
| Total Current Liabilities                       | \$39,821,974                             | \$37,255,424                             |
| Total Noncurrent Liabilities                    | 150,646,734                              | 133,447,863                              |
| <b>TOTAL LIABILITIES</b>                        | <b>\$190,468,708</b>                     | <b>\$170,703,287</b>                     |
|   |  |  |
| Invested in Capital Assets, Net of Related Debt | \$107,983,903                            | \$112,517,856                            |
| Restricted                                      |  |  |
| Nonexpendable                                   | 4,906,955                                | 4,670,083                                |
| Expendable                                      | 4,475,344                                | 4,585,109                                |
| Unrestricted                                    | 19,855,603                               | 15,421,834                               |
| <b>TOTAL NET ASSETS</b>                         | <b>\$137,221,805</b>                     | <b>\$137,194,882</b>                     |

Events or developments that occurred during fiscal year 2003 which had a significant impact on the Statement of Net Assets include:

- **Investment of approximately \$10,000,000 in August of 2002 in the Montana Board of Investments Trust Fund Bond Pool.** At the end of fiscal year 2003, this had the effect of decreasing Current Assets- Cash and Cash Equivalents while increasing Current Assets- Investments.
- **Issuance of \$18,900,000 of Series G Facilities Improvement (Student Housing Project) Revenue Bonds in October of 2002.** Since construction of this project was still in the early stages at the end of fiscal year 2003, this had the effect of increasing Liabilities- Long Term Debt, while also increasing Noncurrent Assets- Restricted Investments.
- **Depreciation of Capital Assets exceeded our Capital Asset acquisitions.** In comparing the end of fiscal year 2003 to the end of fiscal year 2002, this had the effect of decreasing Noncurrent Assets- Capital Assets (net) by about \$4.8 million, while also decreasing Net Assets- Invested in Capital Assets, net of related debt by a roughly similar amount, or about \$4.5 million.
- **Increase in the Net Assets of our Designated Fund Accounts.** In comparing the end of fiscal year 2003 to the end of fiscal year 2002, this had the effect of increasing Net Assets- Unrestricted by approximately \$4.4 million, while also increasing Current Assets- Cash and Cash Equivalents by approximately \$4.4 million.
- **Decrease in Accounts Receivable (Net).** Accounts Receivable (Net) decreased by slightly over 10%, from about \$12.8 million to \$11.4 million. This occurred despite the approximate 10% increase in revenue from fiscal year 2002 to 2003, and is attributable to increased emphasis on collection efforts on all campuses.

## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Nets Assets (the SRECNA) presents the results of the University's operational activities for the fiscal year, categorizing them as either operating or non-operating (see Note 2 for further explanation). Consistent with the accrual method of accounting, current years revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid.

### Statement of Revenues, Expenses, and Changes in Net Assets

| <u>DESCRIPTION OF ITEM</u>                 | <u>For Fiscal Year<br/>Ended 6/30/03</u> | <u>For Fiscal Year<br/>Ended 6/30/02</u> |
|--|--|--|
| Operating Revenue                          | \$193,494,096                            | \$169,520,784                            |
| Operating Expenses                         | 254,471,951                              | 233,663,305                              |
| Operating (Loss)                           | -60,977,855                              | -64,142,521                              |
| Non-operating Revenues (Expenses)          | 60,164,887                               | 60,253,308                               |
| Loss before Other Revenues                 | -812,968                                 | -3,889,213                               |
| Other Revenues                             | 1,657,807                                | 1,578,587                                |
| Net Increase (Decrease) in Net Assets      | 844,839                                  | -2,310,626                               |
| Net Assets- beginning of year, as adjusted | 136,376,966                              | 139,505,508                              |
| Net Assets- end of year                    | <u>\$137,221,805</u>                     | <u>\$137,194,882</u>                     |

The following provides a comparative analysis of revenues and expenses for the two fiscal years:

### ANALYSIS OF ALL SOURCES OF REVENUE

(dollar amounts stated in millions)

| <u>SOURCE OF REVENUE</u>                  | <u>FISCAL YEAR 2003</u> |                | <u>FISCAL YEAR 2002</u> |                | <u>INCREASE<br/>(DECREASE)<br/>FY '03 VS '02</u> |
|---|-------------------------|----------------|-------------------------|----------------|--|
|   | <u>AMOUNT</u>           | <u>PERCENT</u> | <u>AMOUNT</u>           | <u>PERCENT</u> |  |
| Tuition and fees (net)                    | \$73.486                | 28.2%          | \$64.577                | 27.3%          | \$8.909  |
| Federal grants and contracts              | 56.634                  | 21.7%          | 47.603                  | 20.1%          | 9.031  |
| State & local grants/contracts            | 6.635                   | 2.6%           | 5.593                   | 2.4%           | 1.042  |
| Nongovernmental grants/contracts          | 5.319                   | 2.0%           | 5.742                   | 2.4%           | -0.423   |
| Indirect cost recoveries                  | 8.575                   | 3.3%           | 8.370                   | 3.5%           | 0.205  |
| Sales/services of educational departments | 10.216                  | 3.9%           | 7.996                   | 3.4%           | 2.220  |
| Auxiliary enterprise charges              | 28.365                  | 10.9%          | 25.941                  | 11.0%          | 2.424  |
| State appropriations                      | 55.277                  | 21.2%          | 56.824                  | 24.1%          | -1.547   |
| Private gifts                             | 7.943                   | 3.1%           | 7.731                   | 3.3%           | 0.212  |
| All other sources combined                | 7.953                   | 3.1%           | 5.849                   | 2.5%           | 2.104  |
| <b>**TOTALS FOR FISCAL YEAR**</b>         | <u>\$260.403</u>        | <u>100.0%</u>  | <u>\$236.226</u>        | <u>100.0%</u>  | <u>\$24.177</u>                                  |

## ANALYSIS OF CATEGORY OF EXPENSE

(dollar amounts stated in millions)

| <u>CATEGORY OF EXPENSE</u>        | <u>FISCAL YEAR 2003</u> |                | <u>FISCAL YEAR 2002</u> |                | <u>INCREASE</u>      |
|-----------------------------------|-------------------------|----------------|-------------------------|----------------|----------------------|
|                                   | <u>AMOUNT</u>           | <u>PERCENT</u> | <u>AMOUNT</u>           | <u>PERCENT</u> | <u>(DECREASE)</u>    |
|                                   |                         |                |                         |                | <u>FY '03 VS '02</u> |
| Compensation and benefits         | \$160.412               | 61.4%          | \$147.215               | 61.3%          | \$13.197             |
| Other operating expenses          | 63.725                  | 24.4%          | 58.719                  | 24.5%          | 5.006                |
| Scholarships and fellowships      | 14.728                  | 5.6%           | 12.780                  | 5.3%           | 1.948                |
| Depreciation and amortization     | 15.606                  | 6.0%           | 14.949                  | 6.2%           | 0.657                |
| Interest expense                  | 6.746                   | 2.6%           | 6.451                   | 2.7%           | 0.295                |
| <b>**TOTALS FOR FISCAL YEAR**</b> | <b>\$261.217</b>        | <b>100.0%</b>  | <b>\$240.114</b>        | <b>100.0%</b>  | <b>\$21.103</b>      |

Comments about specific revenue and expense items are:

- **Tuition and fees (net):** Increases in tuition rates, a tuition surcharge during fiscal year 2003, and a nearly 2 per cent increase in the number of students all contributed to the 13.8 percent increase in tuition and fees (net).
- **Federal contracts and grants.** The nearly 19% increase in revenue from fiscal year 2002 to 2003 is attributable to a system wide focus on increasing our research dollars, with the Pharmacy School on the Missoula campus the single largest source of this revenue.
- **Auxiliary enterprise charges.** Increased by over 9% year to year. A substantial portion of that came from increases in Dining Services and Residence Life charges, with concession sales and fees charged for ancillary items such as cable television also contributing to the increase.
- **State appropriations.** State appropriations to the four campuses increased in the fiscal year 2003 budget, but when actual state revenues fell short of budgetary projections, a rescission of \$4.9 million was necessary. The net of these two events was a \$1.7 million decrease of state appropriations in fiscal year 2003.
- **Expenses (general comment):** Overall expenses did increase by about \$21 million from fiscal year 2002 to 2003. This was consistent with the \$24 million increase in revenue, and the percent portions expended in various natural categories of expense (for example, salaries, operating expenses, etc.) was very consistent from 2002 to 2003.

## Statement of Cash Flows

The Statement of Cash Flows provides information about the University's sources and uses of cash during the fiscal year. This statement aids in assessing the University's ability to meet obligations and commitments as they become due, their ability to generate future cash flows, and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method", which focuses on those transactions that either provided or used cash during the fiscal year.

| <b><u>CASH FLOW CATEGORY</u></b>             | <b><u>For Fiscal Year<br/>Ended 6/30/03</u></b> | <b><u>For Fiscal Year<br/>Ended 6/30/02</u></b> |
|--|---|---|
| Cash Provided (Used) by:                     |   |   |
| Operating Activities                         | -\$42,819,671                                   | -\$44,407,202                                   |
| Noncapital Financial Activities              | 64,427,881                                      | 65,640,018                                      |
| Capital and Related Financial Activities     | -946,497  | -19,981,159                                     |
| Investing Activities                         | -9,526,422                                      | 1,822,368                                       |
| Net Increase (Decrease) in Cash              | 11,135,291                                      | 3,074,025                                       |
| Cash and Cash Equivalents, beginning of year | 44,258,748                                      | 41,184,723                                      |
| Cash and Cash Equivalents, end of year       | <u>\$55,394,039</u>                             | <u>\$44,258,748</u>                             |

Specific events or cash transactions outside the “everyday realm” of collecting revenues and paying obligations that had significant influence on the approximately \$11 million increase in cash (a net cash inflow) during fiscal year 2003 were:

- The net proceeds from the Series G Revenue Bonds of approximately \$16 million were invested in cash or cash equivalents at the end of fiscal year 2003. This had the effect on cash flows of providing \$16 million in cash in the category captioned “Capital and Related Financial Activities”.
- The investment of approximately \$10,000,000 in the Montana Board of Investments Trust Fund Bond Pool in August of 2002 had the effect of being a use of cash in the “Investing Activities” category.

## **Discussion of Significant Pending Economic and Financial Issues**

The issues we view as significant pending economic or financial issues for the four campuses of the University are:

- The combination of a continuation of a five year trend of decreases in non-resident student enrollment plus a shrinking pool in Montana of graduating high school seniors will challenge our ability to grow- or perhaps even to maintain- our current enrollment levels.
- The current plan of zero percent pay increases for all of our employees for both fiscal years 2004 and 2005 give us concern about our ability to attract and retain high quality faculty and staff.

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Net Assets**  
**At June 30**

|   | 2003                 | 2002                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                                   |                      |                      |
| <b>Current Assets</b>                           |                      |                      |
| Cash and cash equivalents                       | \$ 38,465,966        | \$ 43,677,784        |
| Investments                                     | 10,737,714           | -                    |
| Accounts and grants receivable, net             | 5,474,963            | 4,942,445            |
| Due from Federal government                     | 5,966,958            | 7,877,441            |
| Due from primary government                     | 1,656,537            | 769,875              |
| Due from other State of Montana component units | 338,382              | 53,310               |
| Loans to students, net                          | 2,704,886            | 1,496,123            |
| Inventories                                     | 1,678,645            | 1,601,064            |
| Prepaid expenses and deferred charges           | 1,643,532            | 1,477,264            |
| <b>Total Current Assets</b>                     | <b>\$ 68,667,583</b> | <b>\$ 61,895,306</b> |
| <b>Noncurrent Assets</b>                        |                      |                      |
| Restricted cash and cash equivalents            | \$ 16,928,073        | \$ 580,964           |
| Endowment investments                           | 5,036,021            | 4,588,176            |
| Other long term investments                     | 823,502              | -                    |
| Loans to students, net                          | 7,758,788            | 8,423,844            |
| Bond issuance costs                             | 2,181,970            | 1,926,567            |
| Capital assets, net                             | 225,520,109          | 230,311,648          |
| Securities lending collateral                   | 774,467              | 171,664              |
| <b>Total Noncurrent Assets</b>                  | <b>\$259,022,930</b> | <b>\$246,002,863</b> |
| <b>Total Assets</b>                             | <b>\$327,690,513</b> | <b>\$307,898,169</b> |
| <b>LIABILITIES</b>                              |                      |                      |
| <b>Current Liabilities</b>                      |                      |                      |
| Accounts payable and accrued liabilities        | \$ 12,168,188        | \$ 11,636,325        |
| Due to Federal government                       | 6,598,518            | 6,003,514            |
| Due to primary government                       | 181,127              | 116,331              |
| Due to other State of Montana component units   | 18,677               | -                    |
| Student and other deposits                      | 1,492,811            | 1,501,813            |
| Deferred revenue                                | 8,227,493            | 7,838,136            |
| Accrued compensated absences                    | 6,453,021            | 5,987,602            |
| Current portion of long-term obligations        | 4,682,139            | 4,171,703            |
| <b>Total Current Liabilities</b>                | <b>\$ 39,821,974</b> | <b>\$ 37,255,424</b> |
| <b>Noncurrent Liabilities</b>                   |                      |                      |
| Accrued compensated absences                    | \$ 10,921,913        | \$ 10,244,174        |
| Long term obligations                           | 130,045,612          | 114,158,531          |
| Due to Federal Government                       | 8,904,742            | 8,873,494            |
| Securities lending liability                    | 774,467              | 171,664              |
| <b>Total Noncurrent Liabilities</b>             | <b>\$150,646,734</b> | <b>\$133,447,863</b> |
| <b>Total Liabilities</b>                        | <b>\$190,468,708</b> | <b>\$170,703,287</b> |
| <b>NET ASSETS</b>                               |                      |                      |
| Invested in capital assets, net of related debt | \$107,983,903        | \$112,517,856        |
| Restricted for:                                 |                      |                      |
| Nonexpendable                                   |                      |                      |
| Endowments                                      | 3,265,229            | 3,179,154            |
| Loans   | 1,641,726            | 1,490,929            |
| Expendable                                      |                      |                      |
| Loans   | 1,416,424            | 1,388,918            |
| Scholarships, research, instruction, and other  | 3,058,920            | 3,196,191            |
| Unrestricted                                    | 19,855,603           | 15,421,834           |
| <b>Total Net Assets</b>                         | <b>\$137,221,805</b> | <b>\$137,194,882</b> |
| <b>Total Liabilities &amp; Net Assets</b>       | <b>\$327,690,513</b> | <b>\$307,898,169</b> |

Accompanying notes are an integral part of these financial statements



**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**Years Ended June 30**

|  | 2003                   | 2002                   |
|--|------------------------|------------------------|
| <b>Operating revenues:</b>   |                        |                        |
| Tuition and fees (net of scholarship allowances in 2003 and 2002 of \$16,729,969 and \$14,350,802, respectively; 2003 and 2002 revenues of \$7,603,727 and \$7,408,410, respectively, are pledged) | \$ 73,485,612          | \$ 64,577,349          |
| Federal grants and contracts   | 56,633,643             | 47,602,725             |
| State and local grants and contracts   | 6,635,483              | 5,592,611              |
| Nongovernmental grants and contracts   | 5,319,300              | 5,741,547              |
| Indirect cost recoveries   | 8,575,287              | 8,370,440              |
| Sales and services of educational departments (2003 and 2002 revenues of \$3,018,136 and \$3,634,667 respectively, are pledged)  | 10,216,233             | 7,995,668              |
| Auxiliary enterprises charges:   |                        |                        |
| Residential life (net of scholarship allowances in 2003 and 2002 of \$593,115 and \$646,796, respectively; 2003 and 2002 revenues of \$9,820,916 and \$9,143,289, respectively, are pledged)       | 9,845,714              | 9,807,412              |
| Food services (net of scholarship allowances in 2003 and 2002 of \$593,115 and \$646,795, respectively; 2003 and 2002 revenues of \$8,502,712 and \$7,480,931, respectively, are pledged)          | 8,643,475              | 7,753,368              |
| Other auxiliary revenues (2003 and 2002 revenues of \$9,298,215 and \$8,260,629 respectively, are pledged)   | 9,876,116              | 8,380,427              |
| Interest earned on loans to students   | 38,329                 | 120,525                |
| Other operating revenues   | 4,224,904              | 3,578,712              |
| <b>Total operating revenues</b>  | <b>\$193,494,096</b>   | <b>\$169,520,784</b>   |
| <b>Operating expenses:</b>   |                        |                        |
| Compensation and employee benefits   | \$160,412,153          | \$147,214,998          |
| Other (note 13)  | 63,724,669             | 58,719,032             |
| Scholarships and fellowships   | 14,728,724             | 12,780,314             |
| Depreciation and amortization  | 15,606,405             | 14,948,961             |
| <b>Total operating expenses</b>  | <b>\$254,471,951</b>   | <b>\$233,663,305</b>   |
| <b>Operating loss</b>  | <b>\$ (60,977,855)</b> | <b>\$ (64,142,521)</b> |
| <b>Non-operating revenues (expenses):</b>  |                        |                        |
| State appropriations   | \$ 55,277,445          | \$ 56,823,766          |
| Land grant revenues (revenues are pledged)   | 1,207,229              | 1,085,367              |
| Private gifts  | 7,943,207              | 7,730,885              |
| Investment income (2003 and 2002 revenues of \$534,366 and \$566,619, respectively, are pledged)   | 2,482,638              | 1,064,531              |
| Interest expense   | (6,745,632)            | (6,451,241)            |
| <b>Net non-operating revenues</b>  | <b>\$ 60,164,887</b>   | <b>\$ 60,253,308</b>   |
| <b>Loss before other revenues</b>  | <b>\$ (812,968)</b>    | <b>\$ (3,889,213)</b>  |
| <b>Other revenues:</b>   |                        |                        |
| Capital grants and gifts   | 1,657,807              | 1,578,587              |
| <b>Net increase (decrease) in net assets</b>   | <b>\$ 844,839</b>      | <b>\$ (2,310,626)</b>  |
| <b>Net assets:</b>   |                        |                        |
| Net assets - beginning of year   | \$137,194,882          | \$331,068,239          |
| Recognition of cumulative effects of changes in accounting principle:  |                        |                        |
| Change in accounting for summer session operations   | -                      | 1,600,428              |
| Adoption of depreciation for capital assets  | -                      | (177,021,994)          |
| Change in classification of federal loan programs  | -                      | (8,482,634)            |
| Deferred revenue recognition   | -                      | (5,210,516)            |
| Adjustment to capital assets   | (889,995)              | (2,485,787)            |
| Other adjustments  | 72,079                 | 37,772                 |
| <b>Net assets - beginning of year, as adjusted</b>   | <b>\$136,376,966</b>   | <b>\$139,505,508</b>   |
| <b>Net assets - end of year</b>  | <b>\$137,221,805</b>   | <b>\$137,194,882</b>   |

Accompanying notes are an integral part of these financial statements

**The University of Montana**  
*A Component Unit of the State of Montana*  
**Consolidated Statement of Cash Flows**  
**Years Ended June 30**

|  | <b>2003</b>            | <b>2002</b>            |
|--|------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                      |                        |                        |
| Student tuition and fees   | \$ 73,536,408          | \$ 65,972,930          |
| Federal grants and contracts                                     | 56,704,012             | 47,743,962             |
| State grants and contracts                                       | 6,613,277              | 5,572,648              |
| Nongovernmental grants and contracts                             | 5,301,569              | 4,721,487              |
| Indirect cost recoveries   | 8,575,287              | 8,370,440              |
| Sales and services of educational activities                     | 10,272,061             | 8,076,300              |
| Auxiliary enterprise charges                                     | 28,540,587             | 26,658,022             |
| Interest earned on loans to students                             | 143,015                | 255,554                |
| Other operating receipts   | 4,830,197              | 3,842,852              |
| Payments to employees for salaries and benefits                  | (159,120,508)          | (144,239,825)          |
| Operating expenses   | (62,925,389)           | (58,377,207)           |
| Payments for scholarships and fellowships                        | (14,447,440)           | (12,780,314)           |
| Loans made to students   | (3,550,226)            | (2,241,206)            |
| Loan payments received   | 2,707,479              | 2,017,155              |
| <b>Net Cash Used by Operating Activities</b>                     | <b>\$ (42,819,671)</b> | <b>\$ (44,407,202)</b> |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>           |                        |                        |
| State appropriations   | \$ 55,277,445          | \$ 56,823,766          |
| Land Grants  | 1,207,229              | 1,085,367              |
| Private Gifts  | 7,943,207              | 7,730,885              |
| <b>Net Cash Provided by Noncapital Financing Activities</b>      | <b>\$ 64,427,881</b>   | <b>\$ 65,640,018</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                      |                        |                        |
| Purchases of investments   | \$ (12,040,095)        | \$ (142,491)           |
| Proceeds from sales of investments                               | 746,218                | 475,850                |
| Earnings received on investments                                 | 1,767,455              | 1,489,009              |
| <b>Net Cash (Used) Provided by Investing Activities</b>          | <b>\$ (9,526,422)</b>  | <b>\$ 1,822,368</b>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                        |                        |
| Cash paid for capital assets                                     | \$ (9,460,321)         | \$ (10,391,558)        |
| Proceeds from the sale of capital assets                         | 8,024                  | -                      |
| Proceeds from notes payable                                      | 88,223                 | 647,647                |
| Principal paid on notes payable and capital leases               | (1,325,242)            | (917,464)              |
| Proceeds from issuance of revenue bonds                          | 19,864,960             | -                      |
| Principal paid on bonds payable                                  | (3,010,000)            | (2,895,000)            |
| Bond issuance costs paid on new issue                            | (382,945)              | -                      |
| Interest paid on capital debt and leases                         | (6,729,196)            | (6,424,784)            |
| <b>Net Cash Used by Capital and Related Financing Activities</b> | <b>\$ (946,497)</b>    | <b>\$ (19,981,159)</b> |
| <b>Net Increase in Cash and Cash Equivalents</b>                 | <b>\$ 11,135,291</b>   | <b>\$ 3,074,025</b>    |
| <b>Cash and Cash Equivalents, Beginning of Year</b>              | <b>\$ 44,258,748</b>   | <b>\$ 41,184,723</b>   |
| <b>Cash and Cash Equivalents, End of Year</b>                    | <b>\$ 55,394,039</b>   | <b>\$ 44,258,748</b>   |

Accompanying notes are an integral part of these financial statements

# The University of Montana

## A Component Unit of the State of Montana

### Consolidated Statement of Cash Flows

Years Ended June 30

(Continued)

|   | 2003                  | 2002                  |
|---|-----------------------|-----------------------|
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used By) Operating Activities:</b> |                       |                       |
| Operating income (loss):  | \$(60,977,855)        | \$(64,142,521)        |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities             |                       |                       |
| Depreciation expense  | 15,606,405            | 14,948,961            |
| Other amortization expense  | 241,102               | 229,669               |
| Net loss on disposal of fixed assets  | 71,259                | 3,871                 |
| Changes in assets and liabilities   |                       |                       |
| Accounts receivable   | 206,231               | 489,196               |
| Loans to students   | (543,707)             | (224,053)             |
| Inventories   | (77,581)              | 236,018               |
| Prepaid expenses and deferred charges   | (166,268)             | 343,554               |
| Accounts payable and accrued expenses   | 1,265,983             | 1,617,306             |
| Deferred revenue  | 389,357               | 115,112               |
| Student and other deposits  | (9,002)               | 187,369               |
| Due to federal government   | 31,247                | 390,860               |
| Compensated absences  | 1,143,158             | 1,397,456             |
| <b>Net Cash Used by Operating Activities</b>  | <b>\$(42,819,671)</b> | <b>\$(44,407,202)</b> |
| <b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions</b>        |                       |                       |
| Fixed assets acquired by incurring capital lease obligations  | \$ (666,017)          | \$ (843,143)          |
| Change in fair value of investments recognized as a component of interest income                      | 715,183               | (424,478)             |
| Fixed assets acquired from Capital grants and donations   | 1,657,807             | 1,578,587             |
| <b>Reconciliation of Cash and Cash Equivalent to the Statement of Net Assets</b>                      |                       |                       |
| Cash and cash equivalents classified as current assets  | \$ 38,465,966         | \$ 43,677,784         |
| Cash and cash equivalents classified as noncurrent assets   | 16,928,073            | 580,964               |
|   | <b>\$ 55,394,039</b>  | <b>\$ 44,258,748</b>  |

# Notes to the Consolidated Financial Statements

## The University of Montana

### *A Component Unit of the State of Montana*

### For the Years Ended June 30, 2003 and 2002

#### NOTE 1 – ORGANIZATION, REPORTING ENTITY AND BASIS OF PRESENTATION

**Organization:** The University of Montana (hereafter the “University”) is a component unit of the State of Montana with an enrollment of more than 16,000 students on its four campuses. The State of Montana Board of Regents is appointed by the Governor of the State and has oversight responsibility with respect to the University. The State of Montana allocates and allots funds to each campus separately and requires that the funds be maintained accordingly.

**Reporting Entity:** The accompanying financial statements include all activities of the University, the Forestry Experiment Station and the Montana Bureau of Mines. The four campuses of the University are The University of Montana – Missoula, Montana Tech of The University of Montana (located in Butte), The University of Montana – Western (located in Dillon) and The University of Montana - Helena College of Technology.

The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements for the University are included as a component part of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Accounts of The University of Montana Foundation and other affiliated organizations, such as booster and alumni organizations, are not controlled by the University and are not included in the accompanying financial statements. (See Note 12 regarding related party transactions.)

**Basis of Presentation:** The financial statements have been prepared in accordance with generally accepted accounting principles, as prescribed by the GASB. Under GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, the University is required to present a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. All significant intra-entity transactions have been eliminated upon consolidation.

GASB Statements No. 34 and 35 were adopted as of and for the year ended June 30, 2002. The latter statement was adopted as amended by GASB Statements No. 37 and 38. Significant accounting changes made in order to comply with the new requirements include: (1) adoption of depreciation on capital assets; and (2) allocating summer school revenues and expenses between fiscal years rather than in one fiscal year, and (3) reporting of tuition and fees net of scholarship discounts and allowances.

## Notes to the Consolidated Financial Statements (continued)

The University of Montana

*A Component Unit of the State of Montana*

For the Years Ended June 30, 2003 and 2002

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

**Reclassifications** – Certain reclassifications have been made to amounts in the June 30, 2002, consolidated financial statements to conform to the current year presentation.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

**Cash Equivalents** - For purposes of the statement of cash flows, the University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents.

**Investments** – The University accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

**Accounts and Grants Receivable** – Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

**Inventories** – Inventories are comprised of consumable supplies, food items and items held for resale or recharge within the University. The larger inventories are valued using the moving average method. Other inventories are valued using First In First Out (FIFO) or specific identification methods.

**Non-current Cash and Investments** - Cash and investments that are externally restricted to make debt service payments, or to purchase or construct capital or other non-current assets, or by a donor or outside agency prohibiting the expenditure of principal and possibly earnings, are classified as non-current assets in the statement of net assets.

**Capital Assets** - Capital assets are stated at cost or fair market value at date of purchase or donation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

## Notes to the Consolidated Financial Statements (continued)

The University of Montana

A Component Unit of the State of Montana

For the Years Ended June 30, 2003 and 2002

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets: building 40 years; land improvements and infrastructure 20 and 40 years, respectively; library books 8 years; equipment 3 to 10 years. Historically, the University has capitalized all artwork subject to applicable capitalization policies at the time of donation or purchase. The University has elected to continue to capitalize artwork subject to the current threshold, but without recording depreciation on those items.

**Deferred Revenue** - Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Leave** - Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate for annual leave increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

**Net Assets** - The University's net assets are categorized as follows:

**Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**Restricted, nonexpendable** - Net assets subject to externally imposed stipulations that the University maintains those assets permanently. Such assets include the University's permanent endowment funds.

**Restricted, expendable** - Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

**Unrestricted** - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

**Classification of Revenues** - The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

**Operating revenues** - Include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

**Non-operating revenues** - Include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

**Scholarship Discounts and Allowances** - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses,

## Notes to the Consolidated Financial Statements (continued)

The University of Montana

A Component Unit of the State of Montana

For the Years Ended June 30, 2003 and 2002

and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

**New Accounting Pronouncements** – In May of 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which is effective for fiscal years beginning after June 15, 2003 and amends GASB Statement No. 14, *The Financial Reporting Entity*. The University has not yet determined which of its support organizations qualify for inclusion as a component unit subject to the provisions of Statement No. 39.

### NOTE 3 – CASH EQUIVALENTS AND INVESTMENTS

**Cash equivalents** – These amounts consist of cash invested in Guaranteed Investment Contracts with AIG Funding Corporation and AMBAC Capital Funding and in the Short Term Investment Pool (STIP) with the Montana Board of Investments. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable rate (floating rate) instruments to provide diversification and a competitive rate of return. Cash equivalents are classified as Risk Category I.

**Investments** - The University's investments are categorized as to credit risk as either Category I insured or registered, or securities held by the University or its agent in the University's name or other investments not categorized.

| Investments at fair value were as follows at June 30: |    |            |    |           |
|---|----|------------|----|-----------|
|   |    | 2003       |    | 2002      |
| Category I:   |    |            |    |           |
| U.S. Government securities                            | \$ | 823,502    | \$ | 150,997   |
| Stocks and bonds                                      |    | 13,611,244 |    | 3,014,152 |
| Certificates of deposit                               |    | 257,640    |    | 254,155   |
| Total Category I                                      |    | 14,692,386 |    | 3,419,304 |
| Not Categorized:                                      |    |            |    |           |
| UM Foundation Pool                                    |    | 1,898,973  |    | 1,162,554 |
| Tech Foundation Pool                                  |    | 5,878      |    | 6,318     |
| Total Not Categorized                                 |    | 1,904,851  |    | 1,168,872 |
| Total Investments                                     | \$ | 16,597,237 | \$ | 4,588,176 |

The cost basis of investments held at June 30 were as follows:

|                                       | <b>2003</b> |            | <b>2002</b>  |
|---------------------------------------|-------------|------------|--------------|
| State of Montana Board of Investments | \$          | 12,576,396 | \$ 2,655,654 |
| Trustees                              | \$          | 3,086,540  | \$ 1,713,525 |

Asset-backed securities are collateralized by a pool of mortgage and non-mortgage assets, pledged by the issuer and have one or more forms of credit enhancement to raise the quality of the security. Stocks and bonds consist of assets held in the Trust Funds Bond Pool (TFBP) and the Montana Domestic Equity Pool

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
*A Component Unit of the State of Montana*  
For the Years Ended June 30, 2003 and 2002

(MDEP) administered by the Montana Board of Investments. MDEP and TFBP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle."

**The MDEP portfolio** – may include common stock, equity index, preferred stock, convertible equity securities and equity derivatives. Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. Equity derivatives "derive" their value from other equity instruments such as futures and options.

**The TFBP portfolio** - includes corporate asset-backed, other corporate, U.S. government mortgage-backed, and Yankee securities. Corporate asset-backed securities represent debt securities collateralized by a pool of assets. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages. Government securities include direct and indirect obligations of the U.S. Treasury and state and local government bonds. Yankee bonds are U.S. dollar denominated securities issued by foreign corporations and governments and U.S. companies issuing debt in foreign markets.

**The University Foundation Pool** - consists of endowment funds held in a common investment pool administered by the UM and Montana Tech Foundations.

**The certificates of deposit** - serves as collateral for loans made to students with disabilities for the purchase of specialized equipment necessary to complete their education. The six-month certificate of deposit, including interest earned, is reinvested upon maturity.

**Securities lending transactions** - Under the provisions of state statutes, the Board of Investments has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2003 and 2002, the board had no credit risk exposure to borrowers.

Security lending cash collateral for the University at June 30, 2003 and 2002, was \$774,467 and \$171,664, respectively.

**Land grant earnings** - In 1881, The Congress of the United States granted land to the State of Montana for the benefit of the State's universities and colleges. The Enabling Act of 1889 granted 46,563 acres to Missoula, 100,000 acres to Montana Tech and 50,000 acres to Western Montana College. Under provisions of the grants, proceeds from the sale of land and land assets, together with proceeds from the sale of timber,



## Notes to the Consolidated Financial Statements (continued)

### The University of Montana A Component Unit of the State of Montana For the Years Ended June 30, 2003 and 2002

oil royalties and other minerals, must be reinvested and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board, which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University, as a beneficiary, does not have title to the assets resulting from the grant, only a right to the earnings generated. The University's share of the trust earnings was \$1,207,229 and \$1,085,367 for the fiscal years ended June 30, 2003 and 2002, respectively. These monies are currently pledged to the Series A 1993, Series C 1995, Series E 1998, Series F 1999, Series G 2002 and Series H 2003 revenue bonds.

The University's land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

**Off-Balance Sheet risk** - The University's investment strategy (like that of most other institutions) incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward, futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the statement of net assets and is not represented by the contract or notional amounts of the instruments.

#### NOTE 4 – INVENTORIES

| Inventories consisted of the following at June 30: |           |                  |                     |
|--|-----------|------------------|---------------------|
|  |           | 2003             | 2002                |
| Bookstore  | \$        | 576,666          | \$ 482,552          |
| Food Services                                      |           | 57,696           | 96,520              |
| Facilities Services                                |           | 443,032          | 469,763             |
| Other  |           | 601,251          | 552,229             |
| <b>Total Inventories</b>                           | <b>\$</b> | <b>1,678,645</b> | <b>\$ 1,601,064</b> |

#### NOTE 5 – ACCOUNTS AND GRANTS RECEIVABLE

| Accounts Receivable consisted of the following at June 30: |    |                  |                     |
|--|----|------------------|---------------------|
|  |    | 2003             | 2002                |
| Student tuition and fees                                   | \$ | 1,327,734        | \$ 1,588,871        |
| Auxiliary enterprises and other operating activities       |    | 1,196,857        | 1,405,787           |
| Federal and private grants and contracts                   |    | 3,006,541        | 1,688,849           |
| Other  |    | 213,299          | 513,654             |
| <b>Total accounts receivable</b>                           |    | <b>5,744,431</b> | <b>5,197,161</b>    |
| Less allowance for doubtful accounts                       |    | 269,468          | 254,716             |
| <b>Net accounts receivable</b>                             |    | <b>5,474,963</b> | <b>\$ 4,942,445</b> |

#### NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan receivable balances. Included in non-current liabilities as of June 30, 2003 and 2002, is \$8,904,742

# Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

and \$8,873,494, respectively, that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

## NOTE 7 – CAPITAL ASSETS

| Following are the changes in capital assets for the year ended June 30, 2003: |                      |                      |                     |                                |                       |
|---|----------------------|----------------------|---------------------|--------------------------------|-----------------------|
|   | Beginning<br>Balance | Additions            | Deletions           | Transfers and<br>Other Changes | Ending<br>Balance     |
| Land  | \$ 6,935,781         | \$ -                 | \$ -                | \$ -                           | 6,935,781             |
| Capitalized Collections   | 14,394,964           | 324,520              | -                   | -                              | 14,719,484            |
| Construction in progress  | 7,401,664            | 6,048,795            |                     | (6,131,766)                    | 7,318,693             |
| <b>Total capital assets not<br/>being depreciated</b>                         | <b>28,732,409</b>    | <b>6,373,315</b>     | <b>-</b>            | <b>(6,131,766)</b>             | <b>28,973,958</b>     |
| Other capital assets:   |                      |                      |                     |                                |                       |
| Buildings   | 184,375,561          | -                    | -                   | 2,707,648                      | 187,083,209           |
| Building Improvements   | 114,336,461          | -                    | -                   | 3,081,419                      | 117,417,880           |
| Furniture and equipment   | 40,715,105           | 3,835,790            | 668,707             | (105,341)                      | 43,776,847            |
| Land improvements   | 8,971,404            | -                    | -                   | 274,924                        | 9,246,328             |
| Livestock   | 166,619              | 39,801               | -                   | -                              | 206,420               |
| Library materials   | 43,916,775           | 1,067,669            | 10,439              | 7,730                          | 44,981,735            |
| <b>Total other capital assets</b>   | <b>392,481,925</b>   | <b>4,943,260</b>     | <b>679,146</b>      | <b>5,966,380</b>               | <b>402,712,419</b>    |
| <b>Less accumulated depreciation for:</b>                                     |                      |                      |                     |                                |                       |
| Buildings   | 74,837,370           | 4,197,511            | 7,388               | -                              | 79,027,493            |
| Building Improvements   | 45,583,692           | 6,067,197            | -                   | 490,576                        | 52,141,465            |
| Furniture and equipment   | 28,690,892           | 2,757,920            | 626,233             | -                              | 30,822,579            |
| Land improvements   | 6,863,215            | 395,138              | -                   | (2,144)                        | 7,256,209             |
| Library materials   | 35,978,662           | 2,703,062            | -                   | -                              | 37,761,135            |
| <b>Total accumulated Depreciation</b>   | <b>191,953,831</b>   | <b>15,200,239</b>    | <b>633,621</b>      | <b>488,432</b>                 | <b>207,008,881</b>    |
| <b>Other capital assets, net</b>  | <b>200,528,094</b>   | <b>(10,256,980)</b>  | <b>45,525</b>       | <b>5,477,948</b>               | <b>195,703,538</b>    |
| Intangible assets   | 1,051,145            | 1,612,295            | 1,414,660           | (406,166)                      | 842,613               |
| <b>Capital assets, net</b>  | <b>\$230,311,648</b> | <b>\$(2,271,370)</b> | <b>\$ 1,460,185</b> | <b>\$ (1,059,984)</b>          | <b>\$ 225,520,109</b> |
| <b>Capital Asset Summary</b>  |                      |                      |                     |                                |                       |
| Capital assets not being depreciated  | \$ 28,732,409        | \$ 6,373,315         | -                   | \$ (6,131,766)                 | \$ 28,973,958         |
| Other capital and intangible assets   | 393,533,070          | 6,555,554            | 2,093,806           | 5,560,214                      | 403,555,032           |
| <b>Total cost of capital assets</b>   | <b>422,265,479</b>   | <b>12,928,869</b>    | <b>2,093,806</b>    | <b>(571,552)</b>               | <b>432,528,990</b>    |
| Less accumulated Depreciation   | 191,953,831          | 15,200,239           | 633,621             | 488,432                        | 207,008,881           |
| <b>Capital assets, net</b>  | <b>\$230,311,648</b> | <b>\$(2,271,370)</b> | <b>\$ 1,460,185</b> | <b>\$ (1,059,984)</b>          | <b>\$ 225,520,109</b> |

# Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

Following are the changes in capital assets for the year ended June 30, 2002:

|   | Beginning<br>Balance  | Additions          | Deletions       | Transfers and<br>Other Changes | Ending<br>Balance     |
|---|-----------------------|--------------------|-----------------|--------------------------------|-----------------------|
| Land  | \$ 6,813,398          | \$ 70,000          | \$ -            | \$ 52,383                      | \$ 6,935,781          |
| Capitalized Collections                               | 5,080,632             | -                  | -               | 9,314,332                      | 14,394,964            |
| Construction in progress                              | 12,715,787            | 7,593,289          | -               | (12,907,412)                   | 7,401,664             |
| <b>Total capital assets not<br/>being depreciated</b> | <b>24,609,817</b>     | <b>7,663,289</b>   | <b>-</b>        | <b>(3,540,697)</b>             | <b>28,732,409</b>     |
| Other capital assets:                                 |                       |                    |                 |                                |                       |
| Buildings   | 291,214,325           | 168,831            | -               | (107,007,595)                  | 184,375,561           |
| Building Improvements                                 | 13,533,309            | 1,452,292          | -               | 99,350,860                     | 114,336,461           |
| Furniture and equipment                               | 38,749,933            | 3,654,295          | 20,995          | (1,668,128)                    | 40,715,105            |
| Land improvements                                     | -                     | 167,637            | -               | 8,803,767                      | 8,971,404             |
| Livestock   | 209,662               | -                  | -               | (43,043)                       | 166,619               |
| Library materials                                     | 41,037,666            | 1,350,046          | -               | 1,529,063                      | 43,916,775            |
| <b>Total other capital assets</b>                     | <b>384,744,895</b>    | <b>6,793,101</b>   | <b>20,995</b>   | <b>964,924</b>                 | <b>392,481,925</b>    |
| <b>Less accumulated<br/>depreciation for:</b>         |                       |                    |                 |                                |                       |
| Buildings   | -                     | 4,032,129          | -               | 70,805,241                     | 74,837,370            |
| Building Improvements                                 | -                     | 6,020,466          | -               | 39,563,226                     | 45,583,692            |
| Furniture and equipment                               | -                     | 2,713,980          | 17,124          | 25,994,036                     | 28,690,892            |
| Land improvements                                     | -                     | 403,275            | -               | 6,459,940                      | 6,863,215             |
| Library materials                                     | -                     | 1,779,111          | -               | 34,199,551                     | 35,978,662            |
| <b>Total accumulated<br/>depreciation</b>             | <b>-</b>              | <b>14,948,961</b>  | <b>17,124</b>   | <b>177,021,994</b>             | <b>191,953,831</b>    |
| <b>Other capital assets, net</b>                      | <b>384,744,895</b>    | <b>(8,155,860)</b> | <b>3,871</b>    | <b>(176,057,070)</b>           | <b>200,528,094</b>    |
| Intangible assets                                     | 2,586,581             | 608,519            | -               | (2,143,955)                    | 1,051,145             |
| <b>Capital assets, net</b>                            | <b>\$ 411,941,293</b> | <b>\$ 115,948</b>  | <b>\$ 3,871</b> | <b>\$ (181,741,722)</b>        | <b>\$ 230,311,648</b> |
| <b>Capital Asset Summary</b>                          |                       |                    |                 |                                |                       |
| Capital assets not being<br>depreciated               | \$ 24,609,817         | \$ 7,663,289       | \$ -            | \$ (3,540,697)                 | \$ 28,732,409         |
| Other capital and<br>intangible assets                | 387,331,476           | 7,401,620          | 20,995          | (1,179,031)                    | 393,533,070           |
| <b>Total cost of capital<br/>assets</b>               | <b>411,941,293</b>    | <b>15,064,909</b>  | <b>20,995</b>   | <b>(4,719,728)</b>             | <b>422,265,479</b>    |
| Less accumulated<br>depreciation                      | -                     | 14,948,961         | 17,124          | 177,021,994                    | 191,953,831           |
| <b>Capital assets, net</b>                            | <b>\$ 411,941,293</b> | <b>\$ 115,948</b>  | <b>\$ 3,871</b> | <b>\$ (181,741,722)</b>        | <b>\$ 230,311,648</b> |

# Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

## NOTE 8 – LONG – TERM LIABILITIES

| Long-term liability activity for the year ended June 30, 2003 was as follows: |                      |                      |                      |                       |                      |
|---|----------------------|----------------------|----------------------|-----------------------|----------------------|
|   | Beginning<br>Balance | Additions            | Deductions           | Ending<br>Balance     | Current<br>Portion   |
| <b>Bonds, notes and capital leases</b>  |                      |                      |                      |                       |                      |
| Revenue bonds payable, net  | \$114,841,327        | 19,866,628           | 2,898,107            | 131,809,848           | 3,720,000            |
| Notes payable   | 2,146,495            | 88,223               | 568,433              | 1,666,285             | 455,703              |
| Capital leases payable  | 1,342,412            | 666,017              | 756,811              | 1,251,618             | 506,436              |
| <b>Total bonds, notes and capital leases</b>                                  | <b>118,330,234</b>   | <b>20,620,868</b>    | <b>4,223,351</b>     | <b>134,727,751</b>    | <b>4,682,139</b>     |
| <b>Other noncurrent liabilities</b>   |                      |                      |                      |                       |                      |
| Accrued compensated absences  | 16,231,776           | 7,610,415            | 6,467,257            | 17,374,934            | 6,453,021            |
| Due to Federal Government   | 8,873,494            | 31,248               | -                    | 8,904,742             | -                    |
| Securities lending liability  | 171,664              | 602,803              | -                    | 774,467               | -                    |
| <b>Total other noncurrent liabilities</b>                                     | <b>25,276,934</b>    | <b>8,244,466</b>     | <b>6,467,257</b>     | <b>27,054,143</b>     | <b>6,453,021</b>     |
| <b>Total noncurrent liabilities</b>   | <b>\$143,607,168</b> | <b>\$ 28,865,334</b> | <b>\$ 10,690,608</b> | <b>\$ 161,781,894</b> | <b>\$ 11,135,160</b> |

  

| Long-term liability activity for the year ended June 30, 2002 was as follows: |                      |                     |                     |                      |                      |
|---|----------------------|---------------------|---------------------|----------------------|----------------------|
|   | Beginning<br>Balance | Additions           | Deductions          | Ending<br>Balance    | Current<br>Portion   |
| <b>Bonds, notes and capital leases</b>  |                      |                     |                     |                      |                      |
| Revenue bonds payable, net  | \$117,628,288        | \$ -                | \$ 2,786,961        | \$114,841,327        | \$ 3,010,000         |
| Notes payable   | 1,907,669            | 647,649             | 408,823             | 2,146,495            | 529,862              |
| Capital leases payable  | 1,007,911            | 843,142             | 508,641             | 1,342,412            | 631,841              |
| <b>Total bonds, notes and capital leases</b>                                  | <b>120,543,868</b>   | <b>1,490,791</b>    | <b>3,704,425</b>    | <b>118,330,234</b>   | <b>4,171,703</b>     |
| <b>Other noncurrent liabilities</b>   |                      |                     |                     |                      |                      |
| Accrued compensated absences  | 14,834,320           | 7,073,635           | 5,676,179           | 16,231,776           | 5,987,602            |
| Due to Federal Government   | -                    | 8,873,494           | -                   | 8,873,494            | -                    |
| Securities lending liability  | 188,598              | -                   | 16,934              | 171,664              | -                    |
| <b>Total other noncurrent liabilities</b>                                     | <b>15,022,918</b>    | <b>15,947,129</b>   | <b>5,693,113</b>    | <b>25,276,934</b>    | <b>5,987,602</b>     |
| <b>Total noncurrent liabilities</b>   | <b>\$135,566,786</b> | <b>\$17,437,920</b> | <b>\$ 9,397,538</b> | <b>\$143,607,168</b> | <b>\$ 10,159,305</b> |

**Noncurrent Liabilities** - Include (1) capital lease obligations, principal amounts of bonds payable, revenue bonds payable, and notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as non-current assets.

**Capital Leases** - The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2003:

| Fiscal Year | Capital Leases |
|-------------|----------------|
| 2004        | \$ 597,955     |
| 2005        | 426,110        |

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

|  |                     |
|--|---------------------|
| 2006   | 215,586             |
| 2007   | 179,359             |
| 2008   | 13,107              |
| Minimum Lease Payments                             | \$ 1,432,117        |
| Less: Amount representing interest                 | 180,499             |
| <b>Present Value of Net Minimum Lease Payments</b> | <b>\$ 1,251,618</b> |

**Bonds Payable** - Revenue bonds were issued pursuant to an Indenture of Trust between the Board of Regents of Higher Education for the State of Montana (on behalf of The University of Montana) and U. S. Bank Trust National Association MT. The bonds are secured by a first lien on the combined pledged revenues of the four campuses of The University of Montana. The pledged revenues earned at each campus are cross-pledged among all campuses of The University of Montana. Bonds payable recorded by each campus reflect the liability associated with the bond proceeds deposited into the accounts of that campus and do not necessarily mean that the debt service payments on that liability will be made by that campus.

The total aggregate principal amount originally issued pursuant to the Indenture of Trust and the various supplements to the Indenture for all campuses of The University of Montana at June 30, 2003 and 2002, was \$147,875,000 and \$127,960,000, respectively. The combined principal amount outstanding at June 30, 2003 and 2002, was \$133,785,000 and \$116,880,000, respectively.

**Series A 1993** - November 10, 1993, The University of Montana issued \$48,050,000 in Series A 1993 Revenue Bonds, with interest rates ranging from 2.3 to 5.0 percent to advance refund \$15,823,643 of outstanding 1985/1987 Series A and B Revenue Bonds (Missoula) with interest rates ranging from 6.0 to 9.75 percent, and 1966 Series B, C, & D and 1967 Series A & B Revenue Bonds (Western Montana College) with interest rates ranging from 3.0 to 5.25 percent. Proceeds of \$22,286,749, together with certain funds and monies of the University were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to legally defease the 1985/1987 Series A and B bonds, the 1966 Series B, C, & D bonds, and the 1967 Series A & B bonds. The balance of the proceeds, together with certain funds and monies of the University, provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties at the University.

**Series C 1995** - On December 14, 1995, The University of Montana issued \$34,406,784 of Series C 1995 Revenue Bonds, with interest ranging from 3.80 to 5.75 percent. In fiscal year 2000, the Series F 1999 Revenue Bonds issuance advance refunded a portion of Series C 1995 revenue bonds (see below).

**Series E 1998** - On June 26, 1998, The University of Montana issued \$10,670,000 of Series E Facilities Improvement Revenue Bonds, with interest ranging from 3.90 to 5.00 percent. The proceeds from the issue provided funds for the acquisition, construction, repair, replacement, renovation and improvement of certain facilities and properties.

**Series F 1999** - On November 12, 1999, The University of Montana issued \$69,240,000 of Series F 1999 Revenue Bonds, with interest rates ranging from 3.80% to 6.00%. The proceeds from the issue were used for the purpose of restructuring Series B, C and D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping certain facilities and properties at The University of Montana.

The University of Montana recorded \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund \$58,609,189 of outstanding Series B, C and D Facilities Improvements Revenue Bonds with average

## Notes to the Consolidated Financial Statements (continued)

### The University of Montana A Component Unit of the State of Montana For the Years Ended June 30, 2003 and 2002

interest rates ranging from 4.30% to 6.65%. The bonds are considered legally defeased and as a result, the liability for those bonds is no longer recorded in the financial statements.

Included in the Series F issuance is \$10,650,000 for construction of a new recreation facility at The University of Montana - Missoula. The students of the University voted to assess a student fee to fund a portion of the debt service on the \$10,650,000. The remainder of the debt service will be paid by fees charged faculty and staff and from other projected sources of revenue.

**Series G 2002** – On October 18, 2002, The University of Montana issued \$18,900,000 of Series G Facilities Improvement Revenue Bonds, with interest ranging from 3.00 to 4.65 percent. The proceeds from the issue provided funds for the acquisition, construction, furnishing and equipping of certain student housing facilities on the Missoula campus.

**Series H 2003** - On April, 2003, The University of Montana issued \$1,015,000 of Series H Facilities Improvement Revenue Bonds, with interest at 2.70 percent. The proceeds from the issue provided funds for the Washington Grizzly Stadium expansion on the Missoula campus.

**Defeased Bonds** – The University has defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. As of June 30, 2003 and 2002, \$53,429,655 and \$55,386,750, respectively, of bonds outstanding were considered defeased.

**Revenue Bonds Payable:** As of June 30, 2003 annual principal payments are as follows:

| <b>Series A 1993</b>              |                      |           |                   |
|-----------------------------------|----------------------|-----------|-------------------|
| <b>Fiscal Year</b>                | <b>Interest Rate</b> |           | <b>Principal</b>  |
| 2004                              | 4.30 – 4.50%         | \$        | 2,025,000         |
| 2005                              | 4.50 – 4.60%         |           | 2,115,000         |
| 2006                              | 4.60 – 4.625%        |           | 2,205,000         |
| 2007                              | 4.625 - 4.70%        |           | 2,305,000         |
| 2008                              | 4.70 - 4.80%         |           | 2,425,000         |
| 2009 – 2013                       | 4.80 – 4.50%         |           | 13,590,000        |
| 2014 – 2015                       | 4.50%                |           | 8,085,000         |
| <b>Subtotal</b>                   |                      |           | <b>32,750,000</b> |
| Less: Unamortized Discount        |                      |           | 743,926           |
| <b>Total 1993 A Bonds Payable</b> |                      | <b>\$</b> | <b>32,006,074</b> |
| <b>Series C 1995 (Partial)</b>    |                      |           |                   |
| <b>Fiscal Year</b>                | <b>Interest Rate</b> |           | <b>Principal</b>  |
| 2004                              | 4.50 – 4.60%         | \$        | 370,000           |
| 2005                              | 4.60 – 5.25%         |           | 385,000           |
| 2006                              | 5.25 – 5.375%        |           | 405,000           |
| 2007                              | 5.375%               |           | 425,000           |
| 2008                              | 5.00 – 5.375%        |           | 450,000           |
| 2009 - 2011                       | 5.00 – 5.25%         |           | 1,495,000         |
| <b>Total 1995 C Bonds Payable</b> |                      | <b>\$</b> | <b>3,530,000</b>  |

# Notes to the Consolidated Financial Statements (continued)

The University of Montana

*A Component Unit of the State of Montana*

For the Years Ended June 30, 2003 and 2002

| <b>Series E 1998</b>              |                      |           |                   |
|-----------------------------------|----------------------|-----------|-------------------|
| <b>Fiscal Year</b>                | <b>Interest Rate</b> |           | <b>Principal</b>  |
| 2004                              | 4.15 - 4.20%         | \$        | 720,000           |
| 2005                              | 4.20 - 4.30%         |           | 755,000           |
| 2006                              | 4.30 - 4.35%         |           | 595,000           |
| 2007                              | 4.35 - 4.40%         |           | 360,000           |
| 2008                              | 4.40 - 4.45%         |           | 375,000           |
| 2009-2013                         | 4.45 - 5.00%         |           | 2,145,000         |
| 2014-2018                         | 5.00%                |           | 2,305,000         |
| 2019-2021                         | 5.00%                |           | 2,025,000         |
| <b>Subtotal</b>                   |                      |           | <b>9,280,000</b>  |
| Less: Unamortized Discount        |                      |           | 28,733            |
| <b>Total 1998 E Bonds Payable</b> |                      | <b>\$</b> | <b>9,251,267</b>  |
| <b>Series F 1999</b>              |                      |           |                   |
| <b>Fiscal Year</b>                | <b>Interest Rate</b> |           | <b>Principal</b>  |
| 2004                              | 4.45 - 4.60%         | \$        | 255,000           |
| 2005                              | 4.60 - 4.70%         |           | 275,000           |
| 2006                              | 4.70 - 4.80%         |           | 285,000           |
| 2007                              | 4.80 - 4.90%         |           | 545,000           |
| 2008                              | 4.90 - 5.35%         |           | 555,000           |
| 2009-2013                         | 5.00 - 5.55%         |           | 4,760,000         |
| 2014-2018                         | 5.55 - 5.75%         |           | 17,365,000        |
| 2019-2023                         | 5.75%                |           | 34,240,000        |
| 2024-2026                         | 5.75 - 5.80%         |           | 10,030,000        |
| <b>Subtotal</b>                   |                      |           | <b>68,310,000</b> |
| Less: Unamortized Discount        |                      |           | 1,154,123         |
| <b>Total 1999 F Bonds Payable</b> |                      | <b>\$</b> | <b>67,155,877</b> |
| <b>Series G 2002</b>              |                      |           |                   |
| <b>Fiscal Year</b>                | <b>Interest Rate</b> |           | <b>Principal</b>  |
| 2004                              | 3.00%                | \$        | 150,000           |
| 2005                              | 3.00%                |           | 435,000           |
| 2006                              | 3.00%                |           | 445,000           |
| 2007                              | 3.00%                |           | 455,000           |
| 2008                              | 3.00%                |           | 465,000           |
| 2009-2013                         | 3.00 - 3.60%         |           | 2,235,000         |
| 2014-2018                         | 3.60 - 4.20%         |           | 2,575,000         |
| 2019-2023                         | 4.20 - 4.65%         |           | 3,165,000         |
| 2024-2028                         | 4.65%                |           | 3,975,000         |
| 2029-2033                         | 4.65%                |           | 5,000,000         |
| <b>Subtotal</b>                   |                      |           | <b>18,900,000</b> |
| Less: Unamortized Discount        |                      |           | 48,370            |
| <b>Total 2002 G Bonds Payable</b> |                      | <b>\$</b> | <b>18,851,630</b> |
| <b>Series H 2003</b>              |                      |           |                   |
| <b>Fiscal Year</b>                | <b>Interest Rate</b> |           | <b>Principal</b>  |
| 2004                              | 2.70%                | \$        | 200,000           |

# Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

|                                   |       |                     |
|-----------------------------------|-------|---------------------|
| 2005                              | 2.70% | 200,000             |
| 2006                              | 2.70% | 200,000             |
| 2007                              | 2.70% | 200,000             |
| 2008                              | 2.70% | 215,000             |
| <b>Total 2003 H Bonds Payable</b> |       | <b>\$ 1,015,000</b> |

## Maturity Information

The scheduled maturities of the revenue bonds payable are as follows:

| <b>Fiscal Year</b> | <b>Principal</b>      | <b>Interest</b>      | <b>Total Payment</b>  |
|--------------------|-----------------------|----------------------|-----------------------|
| 2004               | \$ 3,720,000          | \$ 6,826,455         | \$ 10,546,455         |
| 2005               | 4,165,000             | 6,663,841            | 10,828,841            |
| 2006               | 4,135,000             | 6,481,208            | 10,616,208            |
| 2007               | 4,290,000             | 6,297,588            | 10,587,588            |
| 2008               | 4,485,000             | 6,104,004            | 10,589,004            |
| 2009-2013          | 24,225,000            | 27,313,040           | 51,538,040            |
| 2014-2018          | 30,330,000            | 21,018,719           | 51,348,719            |
| 2019-2023          | 39,430,000            | 11,891,907           | 51,321,907            |
| 2024-2028          | 14,005,000            | 2,441,370            | 16,446,370            |
| 2029-2033          | 5,000,000             | 718,890              | 5,718,890             |
| <b>Total</b>       | <b>\$ 133,785,000</b> | <b>\$ 95,757,022</b> | <b>\$ 229,542,022</b> |

**Notes Payable:** At June 30, 2003, The University of Montana was indebted for long-term notes payable as follows:

| <b>Description</b>                   | <b>Interest Rate</b> | <b>Maturity Date</b> | <b>Principal Outstanding</b> |
|--------------------------------------|----------------------|----------------------|------------------------------|
| InterCap – Telephone System          | Variable             | 15-Aug-04            | \$ 56,888                    |
| InterCap – Network Engineering       | Variable             | 15-Feb-07            | 112,821                      |
| InterCap – Computer Equipment        | Variable             | 15-Feb-04            | 58,956                       |
| InterCap – Cisco Program             | Variable             | 15-Aug-04            | 20,802                       |
| InterCap – 3 Meter Rail Robot        | Variable             | 15-Feb-04            | 72,678                       |
| InterCap – Weight Room Expansion     | Variable             | 15-Feb-09            | 156,157                      |
| InterCap – Stadium                   | Variable             | 15-Jul-04            | 27,574                       |
| InterCap – Equipment                 | Variable             | 15-Feb-05            | 62,985                       |
| InterCap – Real Estate               | Variable             | 15-Feb-12            | 80,939                       |
| InterCap – KU FM TV                  | Variable             | 15-Feb-07            | 217,445                      |
| InterCap – Lubrecht Forest           | Variable             | 15-Aug-08            | 108,289                      |
| InterCap – Intercollegiate Athletics | Variable             | 15-Feb-10            | 355,735                      |
| InterCap – Office of Public Safety   | Variable             | 15-Aug-04            | 7,698                        |
| InterCap – Facility Services         | Variable             | 15-Feb-06            | 88,223                       |
| Mortgages                            | 8.50%                | 15-Jun-17            | 239,095                      |
| <b>Total Notes Payable</b>           |                      |                      | <b>\$ 1,666,285</b>          |
| Less Current Maturities              |                      |                      | 455,703                      |
| <b>Total Long-Term Notes Payable</b> |                      |                      | <b>\$ 1,210,582</b>          |



## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

### Maturity Information

The scheduled maturities of the notes payable are as follows:

| Fiscal Year  | Principal           | Interest          | Total Payment       |
|--------------|---------------------|-------------------|---------------------|
| 2004         | \$ 455,703          | \$ 57,387         | \$ 513,090          |
| 2005         | 275,270             | 45,057            | 320,327             |
| 2006         | 227,233             | 37,112            | 264,345             |
| 2007         | 206,861             | 30,130            | 236,991             |
| 2008         | 124,448             | 24,107            | 148,555             |
| 2009-2013    | 277,835             | 69,084            | 346,919             |
| 2014-2017    | 98,935              | 18,117            | 117,052             |
| <b>Total</b> | <b>\$ 1,666,285</b> | <b>\$ 280,994</b> | <b>\$ 1,947,279</b> |

**Compensated Leave** - Employee compensated absences is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net assets.

### NOTE 9 - RETIREMENT PLANS

Full-time employees of The University of Montana are all members of the Public Employees' Retirement System (PERS), Game Wardens & Peace Officers Retirement System (GWPORS), Teachers' Retirement System (TRS) or the Optional Retirement Program (ORP) as described below. Only faculty and administrators with contracts under the authority of the Board of Regents are enrolled under TRS or ORP. Beginning July 1, 1993, state legislation required all new faculty and administrators with contracts under the authority of the Board of Regents to enroll in ORP.

**PERS, GWPORS and TRS:** PERS, GWPORS and TRS are statewide, cost-sharing, multiple-employer defined benefit retirement plans. The plans are established under State law and are administered by the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries. PERS, a mandatory system established by the State in 1945, provides retirement services to substantially all public employees. GWPORS, established in 1963, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state police officers not eligible to join the Sheriffs Retirement System, Highway Patrol Officers Retirement System, and Municipal Police Officers Retirement System. TRS, established in 1937, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the University System.

Contribution rates for the plan are required and determined by State law. The contribution rates for 2003 and 2002 expressed as a percentage of covered payroll were as follows:

|        | 2003     |          | 2002     |          |
|--------|----------|----------|----------|----------|
|        | Employee | Employer | Employee | Employer |
| PERS   | 6.90%    | 6.90%    | 6.90%    | 6.90%    |
| GWPORS | 10.56%   | 9.00%    | 10.20%   | 9.00%    |
| TRS    | 8.32%    | 7.47%    | 7.15%    | 7.47%    |

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

The amounts contributed to the plan during years ending June 30, 2001, 2002, and 2003 were equal to the required contribution each year. The amounts contributed were as follows:

|        |            | FY 2001      | FY 2002      | FY 2003      |
|--------|------------|--------------|--------------|--------------|
| PERS   | - Employer | \$ 2,256,341 | \$ 2,369,365 | \$ 2,440,236 |
|        | Employee   | \$ 2,253,266 | \$ 2,369,385 | \$ 2,439,770 |
| GWPORS | - Employer | \$ 26,233    | \$ 34,482    | \$ 37,579    |
|        | Employee   | \$ 24,776    | \$ 38,976    | \$ 44,093    |
| TRS    | - Employer | \$ 1,926,278 | \$ 1,843,787 | \$ 1,863,593 |
|        | Employee   | \$ 1,849,267 | \$ 1,764,803 | \$ 2,074,460 |

The plans issue publicly available annual reports that include financial statements and required supplemental information. The reports may be obtained from the following:

Public Employees' Retirement Administration  
P.O. Box 200131  
100 North Park, Suite 220  
Helena, Montana 59620-0131  
Phone: (406) 444-3154

Teachers' Retirement Division  
P.O. Box 200139  
1500 Sixth Avenue  
Helena, MT 59620-0139  
Phone: (406) 444-3134

**ORP:** ORP was established in 1988 and is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The ORP is a defined contribution plan. Contribution rates for the plan are required and determined by State law. The University's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University of Montana records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions.

Contributions to ORP (TIAA-CREF) were as follows for the fiscal years ended June 30:

|                            | 2003          | 2002          |
|----------------------------|---------------|---------------|
| Covered Payroll            | \$ 44,272,767 | \$ 39,307,348 |
| Employer Contributions     | \$ 2,194,158  | \$ 1,948,073  |
| Percent of Covered Payroll | 4.956%        | 4.956%        |
| Employee Contributions     | \$ 3,119,513  | \$ 2,768,809  |
| Percent of Covered Payroll | 7.044%        | 7.044%        |

In addition, for the fiscal years ended June 30, 2003 and 2002, a total of \$1,788,629 and \$1,588,017, respectively, or 4.04 percent, was contributed to TRS from ORP employer contributions to amortize past service unfunded liability in accordance with state law.

Annual reports that include financial statements and required supplemental information on the plan are available from:

TIAA-CREF  
730 Third Avenue  
New York, New York 10017-3206  
Phone: 1-800-842-2733

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
*A Component Unit of the State of Montana*  
For the Years Ended June 30, 2003 and 2002

### NOTE 10 – RISK MANAGEMENT

Due to the diverse risk exposure of the University and its constituent agencies, the insurance portfolio contains a comprehensive variety of coverage. Montana statutes, 2-9-101 through 305, MCA and ARM 2-2-298, require participation of all state agencies in the self insurance plan established by the Montana Department of Administration, Risk Management and Tort Defense Division (RMTDD). The self insurance program includes coverage for commercial general liability, auto liability, professional liability, and errors and omissions exposures. The RMTDD provides coverage, above self insured retentions, by purchasing other commercial coverage through the State's broker, Willis of Seattle, for excess liability, property, crime, fidelity, boiler and machinery, fine arts, aircraft-liability and hull coverage. The RMTDD also supplies other commercial insurance coverage for specific risk exposures on an as needed basis such as the Volunteer Accident and Health, Dismemberment and Accidental Death coverage obtained for all units of the Montana University System. In addition to these basic policies, the University has established guidelines in risk assessment, risk avoidance, risk acceptance and risk transfer.

The Tort Claims Act of the State of Montana, 2-9-102 MCA, "provides that Governmental entities are liable for its torts and of those of its employees acting within the course and scope of their employment or duties whether arising out of a governmental or proprietary function, except as specifically provided by the Legislature". Accordingly, 2-9-305 MCA requires that the State "provide for the immunization, defense and indemnification of public officers and employees civilly sued for their actions taken within the course and scope of their employment". The University also has commercial coverage for other risk exposures that are not covered by the State's self insurance program.

**Buildings and contents** – are insured for replacement value. For each loss covered by the State's self insurance program and commercial coverage, the University has a \$1,000 per occurrence retention.

**General liability and tort claim coverage** – include comprehensive general liability, auto liability, personal injury liability, officer's and director's liability, professional liability, aircraft liability, watercraft liability, leased vehicles and equipment liability, and are provided for by the University's participation in the State's self insurance program.

**Self-Funded Programs** – The University's health care program is self-funded, and is provided through participation in the Montana University System (MUS) Inter-unit Benefits Program. The MUS program is funded on an actuarial basis and the University believes that sufficient reserves exist to pay run-off claims related to prior years, and that premiums and University contributions are sufficient to pay current and future claims.

Effective July 1, 2003, the University's workers' compensation program became self-funded and is provided through membership in the MUS Self Insured Worker's Compensation Program. In fiscal years 2003 and 2002 the University's workers compensation coverage was provided for through participation in the State's Compensation Insurance Fund. The MUS self-funded program is funded on an actuarial basis and is administered by a third party, currently Missoula County. The MUS program incorporates a self insured retention of \$500,000 per claim and excess commercial coverage to statutory limits. Employer's liability is provided with a \$500,000 retention and an excess insurance limit of \$1,000,000. The University provides periodic disbursements to the administrator for claims paid and administrative expenses. Benefits provided are prescribed by state law and include biweekly payments for temporary loss of wages as well as qualifying permanent partial and permanent total disability. Medical and indemnity benefits are statutorily prescribed for qualifying job-related injuries or illnesses.

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
A Component Unit of the State of Montana  
For the Years Ended June 30, 2003 and 2002

### NOTE 11 – COMMITMENTS AND CONTINGENCIES

At June 30, 2003, the University had the following outstanding commitments under major capital and maintenance projects:

| Project                                 | Budget<br>Authorization | Total<br>Expenditures<br>through June,<br>2003 | Funding Source                               |
|---|-------------------------|--|--|
| Washington Grizzly Stadium<br>Expansion | \$ 2,997,182            | \$ 1,767,811                                   | 2003 Series H Revenue Bonds                  |
| South Campus University<br>Housing      | 16,688,000              | 1,644,071                                      | 2002 Series G Revenue Bonds                  |
| Adams Center Ticketing<br>System        | 193,672                 | 192,912  | Auxiliary Operations                         |
| Research Lab Facility                   | 1,300,000               | 15,153   | Unrestricted Operations                      |
|   |                         |  | Student Building Fees & Private<br>Donations |
| McGill Hall Renovation                  | 1,265,000               | 74,084   |  |
| Elrod Hall Fire Sprinklers &<br>Cabling | 400,000                 | 165,602  | Auxiliary Operations                         |
| <b>Total</b>                            | <b>\$ 22,843,854</b>    | <b>\$ 3,859,633</b>                            |  |

Operating leases – The University has commitments under non-cancelable operating leases as follows:

| Payable during the year ending June 30, |                   |
|---|-------------------|
| 2004                                    | \$ 179,258        |
| 2005                                    | 145,549           |
| 2006                                    | 50,595            |
| 2007                                    | 17,084            |
| 2008                                    | 2,345             |
| <b>Total</b>                            | <b>\$ 394,831</b> |

The University is a defendant in several legal actions. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position.

In the normal course of operations, the University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income may be considered unrelated business income by the Internal Revenue Service (IRS). The Montana University System files appropriate tax returns with the IRS to report such income. Because the tax liability for the System as a whole is not material, no provision is recorded in the accompanying financial statement.

## Notes to the Consolidated Financial Statements (continued)

The University of Montana  
*A Component Unit of the State of Montana*  
For the Years Ended June 30, 2003 and 2002

### NOTE 12—RELATED PARTIES

The University of Montana is a component unit of the State of Montana. Those financial statements include only the activities, funds and accounts of the University. Private nonprofit organizations with relations to the University include The University of Montana Foundation, Montana Tech Foundation, The University of Montana-Western Foundation, the Grizzly Athletic Association, The University of Montana Alumni Association, the Montana Technology Enterprise Center (MonTEC), the Montana Tech Booster Club, the Montana Tech Alumni Association and the University of Montana – Western Booster Club.

The foundations and associations operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the University. In fiscal years 2003 and 2002 the following was transferred to or expended for scholarships and academic or institutional support by the University foundations: \$6,388,689 and \$8,478,114, respectively, from The University of Montana Foundation \$2,128,503 and \$1,428,521, respectively, from the Montana Tech Foundation; \$366,405 and \$417,808, respectively, from The University of Montana-Western Foundation. In addition, in fiscal years 2003 and 2002 the following was transferred from booster clubs for scholarships and construction projects: from the Grizzly Athletic Association \$1,348,318 and \$1,264,361, respectively; from the Montana Tech Booster Club \$67,319 and \$54,319, respectively; from the University of Montana – Western Booster Club \$61,723 and \$52,402, respectively. In exchange, the University provides the foundations with office space and an annually contracted fee, and the associations with office space, staff and some related office expenses. The University in fiscal years 2003 and 2002 provided \$286,957 and \$246,675, respectively, to its Foundations, which included payments for contracted services and capital campaign support.

MonTEC was established as a nonprofit 501 (c) 3 corporation in fiscal year 2001 as a result of an agreement between the University and the Missoula Area Economic Development Foundation (MAEDF). The corporation acquired a warehouse facility in fiscal year 2001 and completed renovation of the facility during fiscal year 2003. MonTEC provides low cost lease space and business consulting to local “start-up” companies, and began to provide those services during fiscal year 2002. Cost of the renovation project was approximately \$1.5 million and was funded from federal grants and private debt. A portion of the federal funding was received directly by the University and passed through to MonTEC to fund the renovation project. Operations have begun, and MonTEC is now entirely self-supporting. The corporation’s board of directors is comprised equally of members appointed by MAEDF and the University.

# Notes to the Consolidated Financial Statements (continued)

## NOTE 13 – NATURAL CLASSIFICATION WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by natural and functional classifications for the year ended June 30, 2003, were as follows:

| Natural Classification             |                         |                           |                    |                    |                      |
|------------------------------------|-------------------------|---------------------------|--------------------|--------------------|----------------------|
| Functional Classification          | Compensation & benefits | Supplies & other services | Utilities          | Communication      | Scholarships         |
| Instruction                        | \$66,626,572            | \$7,969,371               | \$5,185            | \$487,007          |                      |
| Research                           | 25,771,970              | 10,762,414                | 71,458             | 243,576            |                      |
| Public service                     | 4,787,736               | 3,440,770                 | 899                | 106,709            |                      |
| Academic support                   | 15,668,258              | 4,864,033                 | 7,990              | 616,518            |                      |
| Student services                   | 10,562,118              | 7,188,410                 | 5,494              | 437,069            |                      |
| Institutional support              | 10,630,254              | 3,916,900                 | -                  | 775,039            |                      |
| Operation and maintenance of plant | 9,113,496               | 5,990,294                 | 3,592,117          | 67,682             |                      |
| Scholarships and fellowships       |                         |                           |                    |                    | 14,728,724           |
| Auxiliary enterprises              | 17,251,749              | 10,617,037                | 2,154,987          | 403,710            |                      |
| Depreciation                       |                         |                           |                    |                    | 15,606,405           |
| <b>Total Expenses</b>              | <b>\$160,412,153</b>    | <b>\$54,749,229</b>       | <b>\$5,838,130</b> | <b>\$3,137,310</b> | <b>\$14,728,724</b>  |
|                                    |                         |                           |                    |                    | <b>\$15,606,405</b>  |
|                                    |                         |                           |                    |                    | <b>\$254,471,951</b> |

The University's operating expenses by natural and functional classifications for the year ended June 30, 2002, were as follows:

| Natural Classification             |                         |                           |                    |                    |                      |
|------------------------------------|-------------------------|---------------------------|--------------------|--------------------|----------------------|
| Functional Classification          | Compensation & benefits | Supplies & other services | Utilities          | Communication      | Scholarships         |
| Instruction                        | \$60,603,901            | \$9,866,302               | \$4,407            | \$783,132          | \$1,025,318          |
| Research                           | 22,689,121              | 12,875,035                | 67,405             | 387,151            | 645,616              |
| Public service                     | 4,373,618               | 3,561,957                 | 1,079              | 153,334            | 12,279               |
| Academic support                   | 14,835,249              | 758,020                   | 9,427              | 993,784            | 195,277              |
| Student services                   | 10,413,426              | 7,584,968                 | 23,725             | 623,398            | 101,643              |
| Institutional support              | 9,666,661               | 2,784,439                 | 271,206            | 1,156,420          | 37                   |
| Operation and maintenance of plant | 8,647,856               | 1,950,763                 | 3,402,367          | 89,165             | 1,234                |
| Scholarships and fellowships       | 174,050                 | (18,372)                  | 214                | (68)               | 10,798,910           |
| Auxiliary enterprises              | 15,811,116              | 8,550,320                 | 2,064,939          | 774,515            |                      |
| Depreciation                       |                         |                           |                    |                    | 14,948,961           |
| <b>Total Expenses</b>              | <b>\$147,214,998</b>    | <b>\$47,913,432</b>       | <b>\$5,844,769</b> | <b>\$4,960,831</b> | <b>\$12,780,314</b>  |
|                                    |                         |                           |                    |                    | <b>\$14,948,961</b>  |
|                                    |                         |                           |                    |                    | <b>\$233,663,305</b> |



## Supplemental Information



# The University of Montana

## Supplemental Information - All Campuses

| <u>DESCRIPTION</u>                       | <u>Fall 2002</u>         | <u>Fall 2001</u> | <u>Fall 2000</u> | <u>Fall 1999</u> | <u>Fall 1998</u> |
|--|--------------------------|------------------|------------------|------------------|------------------|
| Enrollment (Headcount) <sup>1</sup>      | 17,175                   | 16,703           | 16,436           | 16,508           | 16,163           |
|  | <u>FY2003</u>            | <u>FY2002</u>    | <u>FY2001</u>    | <u>FY2000</u>    | <u>FY1999</u>    |
| Enrollment (FTE) <sup>2</sup>            |                          |                  |                  |                  |                  |
| Colleges of Technology                   | 1,858                    | 1,833            | 1,807            | 1,790            | 1,764            |
| Undergraduate                            | 12,052                   | 11,871           | 11,708           | 11,675           | 11,834           |
| Graduate                                 | 1,630                    | 1,582            | 1,551            | 1,530            | 1,317            |
| Enrollment (FTE) <sup>2</sup>            |                          |                  |                  |                  |                  |
| In-State students                        | 12,070                   | 11,683           | 11,399           | 11,251           | 11,101           |
| Out-of-State students                    | 2,901                    | 2,981            | 3,000            | 3,247            | 3,380            |
| Western Undergraduate Exchange           | 569                      | 622              | 667              | 497              | 434              |
|  | <u>FY2003</u>            | <u>FY2002</u>    | <u>FY2001</u>    | <u>FY2000</u>    | <u>FY1999</u>    |
| Employees (FTE) - All Funds <sup>3</sup> |                          |                  |                  |                  |                  |
| Contract Faculty                         | 937                      | 901              | 905              | 906              | 894              |
| Contract Admin & Professional            | 366                      | 347              | 341              | 334              | 312              |
| Classified                               | 1,266                    | 1,249            | 1,191            | 1,197            | 1,164            |
| GTA/GRA                                  | 170                      | 157              | 140              | 146              | 131              |
| Part Time and Other                      | 378                      | 397              | 359              | 378              | 407              |
|  | <u>School Year Ended</u> |                  |                  |                  |                  |
|  | <u>6/30/2003</u>         | <u>6/30/2002</u> | <u>6/30/2001</u> | <u>6/30/2000</u> | <u>6/30/1999</u> |
| Degrees Granted <sup>4</sup>             |                          |                  |                  |                  |                  |
| Certificate                              | 79                       | 84               | 106              | 176              | 205              |
| Associate                                | 492                      | 479              | 427              | 411              | 372              |
| Undergraduate                            | 2,136                    | 2,182            | 2,103            | 2,112            | 2,148            |
| Graduate                                 | 620                      | 666              | 575              | 564              | 592              |

<sup>1</sup> Source: Internal management reports 1999-2003

<sup>2</sup> Source: Internal management reports 1999-2001, CHE Operating Report 2002-2003

<sup>3</sup> Source: CHE Operating Report 2000-2004

<sup>4</sup> Source: IPEDS Completion Reports, Fall 1999-2003, internal management reports



Office of the President  
The University of Montana  
Missoula, Montana 59812-3324

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1 December 2003

Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 135 State Capitol  
P. O. Box 201705  
Helena, MT 59620-1705

**RECEIVED**

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**LEGISLATIVE AUDIT DIV.**

Dear Mr. Seacat:

We compliment the Legislative Audit staff for their cooperation and completion of The University of Montana's Financial Audit for the fiscal year ended 30 June 2003. Through the dedication of both the University's staff and those in the Legislative Audit Division, we now provide an annual attestation on The University of Montana's consolidated statements.

We appreciate the cooperative efforts of the audit team and thank those involved for their assistance. We remain committed to reliable financial reporting and accountability for The University of Montana.

Sincerely,

George M. Dennison,  
President

c: K. Burgmeier, Internal Auditor  
R. Durringer, Vice President for Administration and Finance  
S. Stearns, Commissioner of Higher Education

GMD/ph  
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